MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2018/2019

BBF3034–ANALYSIS AND VALUATION OF FINANCIAL STATEMENTS

(All sections / Groups)

27 MAY 2019
2.30 p.m–4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 3 pages with 4 Questions only.

2. Attempt all the **FOUR** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

a. Business analysis is the evaluation of a company's prospects and risks. Financial statement analysis is a part of business analysis. Identify and explain the **TWO (2)** major reasons for analyzing financial statements. (10 marks)

b. Skillful use of accounting numbers for analysis requires an understanding of the accounting framework used in the computation of these numbers. This includes the accounting principles governing the measurement of these accounting numbers. Historical cost is an example of an accounting principle. Identify and explain **TWO (2)** other accounting principles. (7 marks)

c. You are analyzing two companies that operate in the same industry. The companies are Besi Corp. and Tukul Corp. Both companies use straight line depreciation technique. However, Besi's average depreciable life is 5 years and Tukul's average depreciable life is 10 years.

Using the above information, determine whether the following ratios will be higher, lower or the same for Besi Corp. when compared to Tukul Corp. Explain your answers. Assume all other things are equal.

i. Net profit margin (2 marks)
ii. Debt to equity (2 marks)
iii. Gross profit margin (2 marks)
iv. Total asset turnover (2 marks)

(Total: 25 marks)

QUESTION 2

a. Following is the financial information for firms ABC Corp., MNO Corp., and XYZ Corp.

	ABC	MNO	XYZ
	RM	RM	RM
Sales	2,000,000	4,000,000	6,000,000
Net Operating Profit after Tax (NOPAT)	200,000	600,000	600,000
Net Operating Assets (NOA)	2,000,000	2,000,000	3,000,000

Determine the following:

i. NOPAT margin for each of the three firms. (3 marks)
ii. NOA turnover for each of the three firms. (3 marks)
iii. Return on Net Operating Assets (RNOA) for each of the three firms. (3 marks)
iv. Compare the RNOA of the three firms. (2 marks)

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b. As at January 1, Year 1, Isha Corp.'s book value of equity is RM50,000. Isha has a 10% cost of equity capital and 6% cost of debt. Isha currently has 10,000 shares outstanding. Forecasted net income data of Isha is as follow:

	Year 1	Year 2	Year 3	Year 4	Year 5
	RM	RM	RM	RM	RM
Net income	20,000	18,000	14,000	16,000	12,000

Assuming year 6 and above the abnormal earnings are zero, determine the value of Isha Corp. as at beginning of Year 1 using an equity valuation model. If Isha's shares are currently selling at RM12, would you buy Isha's stock? (14 marks)

(Total: 25 marks)

QUESTION 3

Shown below is the balance sheet for Lishwanth Corporation.

Lishwanth Corp.'s Balance Sheet as at December 31 of 2017 and 2018

	2017	2018
Cash	RM 30,000	RM 50,000
Receivables	150,000	180,000
Inventories	220,000	200,000
Total current assets	RM 400,000	RM 430,000
Net fixed assets	360,000	320,000
Total assets	RM 760,000	RM 750,000
Accounts payable	RM 120,000	RM 95,000
Notes payable	80,000	85,000
Total current liabilities	RM 200,000	RM 180,000
Long-term debt	180,000	170,000
Common stock	230,000	240,000
Retained earnings	150,000	160,000
Total liabilities and equity	RM 760,000	RM750,000

During the year 2018, Lishwanth reports a net income of RM90,000 and depreciation expense of RM80,000. Prepare the statement of cash flows for year 2018.

(Total: 25 marks)

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QUESTION 4

a. Financial statement information and the ratio analysis are used to get an idea of companies' performance. Identify and explain **FOUR (4)** characteristics that make a good performance measure. (8 marks)

b. Identify **TWO (2)** similarities and **TWO (2)** differences between capital asset pricing model (CAPM) and arbitrage pricing theory (APT) model. (8 marks)

c. Indicate the effect of the following actions on the cash levels, current ratio and working capital. Consider each action independently of others. Assume the company has a current ratio greater than one.

i. Change from first-in, first-out (FIFO) to last-in, first-out (LIFO) inventory technique (3 marks)
ii. Issue more equity (3 marks)
iii. Write-down inventory (3 marks)

(Total: 25 marks)

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